NASDAQ:RFIL Q3 2025 Earnings Call Transcript

Generated on 6/10/2026

Rob Dawson | CEO:

on the capex spend of our Tier 1 carrier customers. One year later, we can proudly say that fast-growing markets like aerospace, transportation, and data centers are now contributing to our sales pipeline, in addition to our strong standing in our traditional markets. Ray will go into more detail on our product innovation go-to-market strategy and trends we're seeing across our end markets. In aerospace, we continue to win repeat orders from a leader in this market, With mission-critical components, failure is not an option, and you don't get a second chance, so our success here continues to add to our credibility and reputation. The transportation market, including both in vehicles and in transportation hubs, is a wide-open field for us. For example, we've already received a meaningful order for a terminal infrastructure project at a major U.S. airport. As you know, the current administration justifiably wants to see our airport terminals upgrade their functionality in line with world-class airports. So this could evolve into significant opportunity for us. Municipal governments also want to upgrade their transportation infrastructures with distributed antenna deployments that will improve communication connectivity and efficiencies for their bus and train systems. We've only just scratched the surface of our product applications for transportation. Our DAC, or direct air cooling system, continues to attract wide attention with a variety of applications across several end markets. As I mentioned last quarter, we launched a next-gen system that has advanced control capabilities and a NEMA certification for more rugged environments that expands our opportunity set in wireline telecom, edge data centers, energy, and transportation. More on data centers shortly. Stadium and venue build-outs are undergoing a significant revival, especially in the United States, playing host to major events like the Olympics and World Cup in coming years. With our well-established reputation in this end market, we have a pipeline of over 100 venues, including some very intriguing projects around corporate and university campuses where greater connectivity is both an essential and competitive advantage. It's exciting to be at that inflection point when our technology, know-how, and reputation create several opportunities to diversify our customer base. Yet equally important is building deeper relationships with our existing customers. Wired and wireless communication customers have been our bread and butter for many years. However, we were mostly a downstream supplier away from the center of action and key decision makers. Now that has changed dramatically with our advanced technology and problem-solving approach We've elevated our value proposition to this important customer base, which in turn has resulted in a greater share of their bill of materials, especially in our higher value solutions. While telecom CapEx spending is still short of historical levels, we've diversified our revenue sources within these organizations to capture a share of the OpEx budgets, a direct result of building and expanding our relationships. Plus, we continue to drive growth with many longstanding customers in our OEM and industrial markets, where we design and build custom assemblies and wire harnesses. The third driver is the value of partnerships, both old and new. We're proud of our longstanding relationships with all the Tier 1 carriers, the major installers and integrators, and especially our distribution partners. The trust we've earned for innovation, collaboration, and service has attracted new partners, which opens the door to additional diverse customer and market opportunities. For example, a major manufacturer of electronic cabinet and enclosures identified our DAC systems as a solution for edge data center installations, which are small decentralized facilities located closer to where data is generated and consumed. While hyperscale data centers are multibillion-dollar installations requiring technologies like liquid cooling systems, facilities on the edge also need energy-efficient cooling. RFI has a great solution for this, and we currently have market trials in process. Before I turn the call over to Ray, a final note on diversification. We've worked long and hard to diversify our supply chain, both domestically and internationally. Although our finished products are American-made, there are certain vital components that are generally available, only available, from outside of the US, which means we must deal with the uncertainty of the evolving tariff landscape. So far, our team has done a great job in mitigating tariff impacts, and we've only had nominal price increases on certain products. Putting this uncertainty aside, we're focused on what's in our control, maximizing the great opportunity ahead of us and delivering one of the best full fiscal year results in RFI's history. We now have three great quarters under our belt for fiscal 2025. And based on what we know today, we expect that our fiscal fourth quarter net sales will be similar to what we delivered in Q3. Finally, thank you to the entire RFI team for executing on the plan and keeping our momentum going. I'm honored to get to work with all of you. Great job. We will continue to stick to the strategy, work hard, be kind, and keep a sense of humor. It certainly seems like we can all use a little more kindness. Now here's Ray.

Ray | COO:

Thank you, Rob, and good afternoon, everyone. As you just heard, we believe we are entering an exciting period of growth and opportunity. A key driver of our performance this quarter has been the deep engagement of our sales team. Their collaboration with engineering and marketing has allowed us to deliver fully integrated solutions that address critical needs across our target markets. This quarter, we saw strong growth across aerospace, venues, telecommunication, and broadband networks, supported by consistent contributions from our distribution channels. Our target initiatives in venues and broadband delivered meaningful bookings and revenue, demonstrating the effectiveness of our market-driven strategy. Marketing and product management played a critical role in reinforcing these efforts through impactful campaigns, events, and partner engagements. These activities strengthened our presence in the market and supported pipeline conversion. On the operations side, execution remains disciplined and strategic. We increased inventory levels in certain product categories to mitigate pending tariff impacts while our ongoing cost reduction programs remain on track. At the same time, process improvements and IT enhancements are enabling real-time decision-making and building scalability to meet growing demand. From an engineering standpoint, our focus continues on small cell concealment, direct air cooling, and RF passive solutions. While aligning engineering output with market demand is still a challenge, our improved processes on stage gate discipline and ensuring resources are directed toward the highest value opportunities. As Rob mentioned earlier, the story today looks very different than it was just a year ago. I couldn't agree more. The change has been dramatic. From my vantage point, the real difference is how we are pairing advanced technology with a problem-solving approach. We're no longer just responding to customer needs or helping them anticipate and shaping the solutions that drive their success. The shift has fundamentally strengthened how customers view RFI and the role we play in their strategic planning. Looking ahead to Q4, we expect revenue to remain steady. with continued strength in small cell, DAC, aerospace, venues, and broadband markets. We are mindful of the potential tariff impacts and ongoing supply chain constraints, but our robust sales pipeline, disciplined operations, and strong cross-functional alignment position us to finish the year strong and carry momentum into 2026. Ultimately, Execution is the bridge between potential and results. As COO, I am proud of how our team continues to execute with focus, discipline, and collaboration. I now turn the call over to Peter.

Peter | CFO:

Thank you, Ray, and good afternoon, everyone. As Rob described, we've had strong momentum across our business for three consecutive quarters in fiscal 2025. Before I review the financials, the overall theme to note is continuous improvement both top line and bottom line. Our sales continue to increase, and this drives better margins and operating leverage as our fixed costs are spread over higher sales levels. In the third quarter, revenue grew 17.5% to $19.8 million year over year and 4.7% on a sequential basis. Gross profit margin was up 450 basis points to 34% from 29.5% year-over-year, primarily driven by an overall increase in sales as well as a higher product mix, a higher margin product mix, and our ongoing efforts to drive cost savings and operating efficiencies. Operating income was $720,000 compared to an operating loss of $419,000 we reported last year. That's over a $1.1 million improvement year over year. Consolidated net income was $392,000 or 4 cents per basic and diluted shares. And non-GAAP net income was $1.1 million or 10 cents per basic and diluted shares. This compared to a net loss of $705,000 or $0.07 per basic and diluted shares and a non-GAAP net loss of $95,000 or $0.01 per basic and diluted shares for Q3 2024. Adjusted EBITDA was $1.6 million, a significant improvement compared to adjusted EBITDA of $460,000 in Q3 2024. Our financial results this fiscal year reflect both our focus on profitability and strong execution against our plan to diversify our customer base and expand our presence in new end markets. Moving to the balance sheet, we closed the quarter with a strong balance sheet including $3 million of cash and cash equivalents, working capital of $13.1 million, and a current ratio of approximately 1.6 to 1. with current assets of $34.1 million and current liabilities of $21 million. At quarter end, we had borrowed $7.8 million on our revolving credit facility. As previously mentioned, we continue to manage our working capital to strengthen our liquidity and overall capital structure. We are actively assessing our borrowing costs and see near-term opportunities for more advertising for more advantageous financing arrangements. At the end of Q3, our inventory was $14.2 million, down from $14.7 million last year. However, our inventory is up when compared to last quarter's $12.6 million. While our inventory may fluctuate from quarter to quarter, we continue to carefully manage inventory levels while improved procurement and supply chain processes. We are very mindful of our value proposition of inventory availability and believe our current inventory level supports both our strategic business model of inventory availability and continued strategic business model of inventory availability and the continued healthy demand that we see for the balance of 2025 and beyond. Moving on to our backlog, as of July 31, Our backlog stood at $19.7 million on bookings of $24.5 million. We have been successful in working through a portion of our backlog since quarter end, and as of today, our backlog currently stands at $16.1 million. We are looking forward to closing out 2025 with solid momentum in our business. Our team's execution is printing through with strong financial results, and we are well positioned to capitalize on the opportunities that are ahead of us. With that, I'll open up the call for your questions.

John | Conference Operator:

Thank you. At this time, we will be conducting a question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. Once again, please press star one if you have a question or a comment. And the first question comes from Josh Nichols with B Reilly Securities. Please proceed.

Matthew | Analyst, B. Riley Securities:

Hi, this is Matthew for Josh. Thanks for taking my questions. I guess to start off, I mean, the 34% gross margin is impressive, and it's well above the 30% target. Can you help us understand how much of that improvement is driven by DAX systems and small sales versus mix?

Rob Dawson | CEO:

Yeah, so I think – good question, and thanks, Matthew. The mix of including those two product lines is increasing, right? So you've got those two things and some of our other high-value items We talked about, obviously, last quarter we put out some press on winning some new aerospace projects. Those are also some of the higher-value, more technical kinds of solutions. So, overall, the mix is sort of leaning towards higher-value items, which help take that up. The other piece I would just mention, and Peter mentioned it in his comments, but a higher sales number is hugely helpful for us, too, because once we absorb all those fixed costs, including the labor that we do, again, to build products in the United States, Once we do that, it's heavily profitable beyond a certain level. And so you're starting to see that operating leverage that kicks in as we move between these 18, 19-plus kind of sales levels. You get some help from that operating leverage also in addition to the mix.

Matthew | Analyst, B. Riley Securities:

Got it. And as a follow-up to that, you guys mentioned you expect Q4 to be a similar revenue base. So I guess I'm assuming, should gross margin, assuming that DAC and other high-value items, keep up this kind of percentage of mix and the revenue base being steady. Should we expect gross margins in Q4 to be similar to Q3? And then I guess going into fiscal 26, how should that change as you grow and that mix probably continues to shift?

Rob Dawson | CEO:

Yeah, I think as we've talked about in the past, the mix will change quarter to quarter, and it doesn't take much of a little movement in top-line dollars to wildly swing our margins. I mean, we're talking about 50 grand here, 70 grand there. Those kinds of numbers are material against our total dollars that are being delivered. So I think our belief is that we've moved into this world where 30% and above is where we should be all the time. I don't have specific... expectations quarter by quarter based on the fluctuations, but it's not out of the question to stay at the sort of low to mid 30 levels where we've been performing. We're happy to be at 34%, obviously. You see not just the mix, but also the leverage really kicking in. It's not out of the question to do that again, but I think from a specific commitment perspective, it's tough to nail exactly what that number will be. Short of saying, we certainly expect it to be north of 30%.

Matthew | Analyst, B. Riley Securities:

Very helpful. Thank you. And then based on, I guess, shifting over to the strong bookings, can you characterize the composition between, you know, I guess, traditional wireless business versus the newer end markets where you've seen strength like aerospace, transportation, and data centers?

Rob Dawson | CEO:

Yeah, I think we're seeing contribution from all of them. And that's the helpful part is, you know, in the past, we've had some, you know, if we go back six or seven years, we had some big quarters and some big wins. And, when you dug into our queue, you'd see some concentration within that. And I think we're seeing a different scenario play out right now. It's coming from several different areas, several different product lines, not just within one market, but within individual customers. We're selling multiple of these newer, higher value product lines as well. So I think the diversity is probably the biggest story around that. And that's also helpful quarter to quarter because we're You know, one quarter, a certain customer might be our largest, and the next quarter, there may be a different customer. And that's a world that, for a growing company, you want to be in. You want that spread out. And it's kind of a who's who of who you'd like to have for customers. You know, for a company our size, and we talk about this often internally, we don't do a lot of disclosing who all of these customers are, short of saying things like the tier one wireless carrier ecosystem or a large, well-known aerospace company. For us, those are marquee names that we're putting up. And so I think that's the helpful part is our core business in the background is cranking, doing its thing, helpful, grinding out the book and ship business and doing a great job on the wire harnesses and other custom cabling to the good industrial OEM customers we've had a long time. These newer growth markets for us are growth product lines. They're coming from a diverse set of customers on top of that. And that really is, I think, the bigger story overall.

Matthew | Analyst, B. Riley Securities:

Right. Yeah, I agree. And I guess you mentioned being well positioned for the Olympics and World Cup build outs. And you also mentioned a hundred plus venue pipeline. Are we talking calendar kind of Q1 2026 for meaningful bookings or could we see acceleration even sooner than that?

Rob Dawson | CEO:

Yeah, I think so. When we talk about the pipeline overall, the great thing about the pipeline and whether it's venues or other of the kind of newer project based product lines, They're long-term. The sales cycle can be lengthy, which is fine. It starts to sort of compound itself, though, quarter to quarter. So we're expecting contribution from those kinds of deployments and solutions, certainly into fiscal 26. In some cases, those are going to be multi-year deployments. And if you think about a brand-new stadium, for example, being built for an NFL market or being built for something like the World Cup, When they build those, the last thing really to go in, once the infrastructure of the actual building itself is put in place, then they start throwing in the wires and the antennas and the overall communications piece. So it can be certainly over several quarters for us, but we think that that pipeline that we're talking about is continuing to grow, and we feel like that's a long-term indicator of whether it happens in one quarter or six quarters, we always need to have that pipeline being added to and growing.

Matthew | Analyst, B. Riley Securities:

Awesome. Thank you. And last question for me. You hit 8% EBITDA margin this quarter with revenue just under $20 million. Can you walk us through the bridge to your 10% target? Is it mainly just from a higher sales base or are there more operational improvements in the works?

Rob Dawson | CEO:

Yeah, so we're always doing operational improvements. I mean, one of the things you heard Ray said is we're constantly working on what's next there and getting better smarter about how we do things there's always opportunity there to streamline the operations overall to get more more profitable there certainly a higher sales number as we just showed it a number just short of 20 million on its own can produce some pretty significant upside results for us so we think it's probably a mix of those two things we're obviously pushing to have higher sales numbers all the time as that's a sort of an obvious statement But also, at the same time, we do believe there's some more efficiencies that we can continue to find. And the better that we do with that product mix of driving these larger project-based kind of long-term customer relationships will help both those things. The more you can predict what you're going to ship out in a quarter or two, it makes it way easier to manage that supply chain, which is one of those examples of the kind of operating levers that we have.

Matthew | Analyst, B. Riley Securities:

Got it. Thanks for taking my questions and great quarter. Thanks, Matthew.

John | Conference Operator:

If there are any remaining questions, please indicate so by pressing star 1. Okay, we have no further questions in the queue. This completes the question and answer session of the call, and I'd like to turn the floor back to Rob Dawson for any closing remarks.

Rob Dawson | CEO:

Great. Thank you, John. Appreciate it. And thanks, all of you, for joining us today. Thanks for your support. As always, on our next conference call, we look forward to sharing our full fiscal year results and the initiatives for fiscal 2026. Thanks, everybody, for your time. Have a good day.

John | Conference Operator:

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.